

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Competitive Product Prices
International Priority Airmail Contracts
International Priority Airmail Contract 1

Docket No. MC2020-164

Competitive Product Prices
International Priority Airmail Contract 1 (MC2020-164)
Negotiated Service Agreements

Docket No. CP2020-187

ORDER ADDING INTERNATIONAL PRIORITY AIRMAIL CONTRACT 1 TO THE
COMPETITIVE PRODUCT LIST

(Issued June 26, 2020)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as International Priority Airmail Contract 1 to the competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

¹ USPS Request to Add International Priority Airmail Contract 1 to Competitive Product List and Notice of Filing Materials Under Seal, June 15, 2020 (Request).

II. BACKGROUND

On June 15, 2020, in accordance with 39 U.S.C. § 3642, 39 C.F.R. §§ 3040.30 *et seq.*, and 39 C.F.R. § 3035.105, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that International Priority Airmail Contract 1 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of the Governors’ Decision authorizing the product, a contract related to the proposed new product, requested changes to the competitive product list, a statement supporting the Request, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Governors’ Decision and the contract, customer-identifying information, and related financial information remain under seal. *Id.* Attachment F.

The Agreement is intended to take effect July 1, 2020. Request at 2. It is set to expire June 30, 2021. See Request, Attachment B at 6-7.

On June 16, 2020, the Commission issued a notice establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.²

III. COMMENTS

The Public Representative filed comments on June 19, 2020.³ No other interested person filed comments. The Public Representative concludes that the contract should be categorized as a competitive product and added to the competitive

² See Docket No. MC2020-163, *et al.*, Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, June 16, 2020.

³ Public Representative Comments on Postal Service Request to Add International Priority Airmail Contract 1 to the Competitive Product List, June 19, 2020 (PR Comments).

product list, and it should generate sufficient revenue to cover its costs during the first year. PR Comments at 2. He characterizes as reasonable the Postal Service's assertions regarding the classification of the contract as a competitive product. *See id.* at 2-3. He notes that the Commission will have an opportunity to annually review the contract's revenue and cost data. *Id.* at 3.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the contract, the supporting data filed under seal, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning International Priority Airmail Contract 1 to either the market dominant or competitive product list. *See* 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3040.134. Before adding a product to the competitive product list, the Commission must determine that the Postal Service does not exercise sufficient market power that it can effectively set the price of the product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. *See* 39 U.S.C. § 3642(b)(1). In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. *See* 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3040.132(f), (g), and (h).

The Postal Service asserts that it provides postal services of the kind provided under the contract in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private

firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

The Commission finds that the Postal Service does not exercise sufficient market power that it can effectively set the price of the proposed product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. The availability of other private sector providers supports this conclusion. The contract partner and the Public Representative support the addition of the International Priority Airmail Contract 1 product to the competitive product list. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements, the comments filed, and the Postal Service's supporting justification, the Commission finds that International Priority Airmail Contract 1 is appropriately classified as competitive and is added to the competitive product list.

Cost considerations. Because the Commission finds International Priority Airmail Contract 1 is a competitive product, the Postal Service must also show that the contract covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3035.105 and 3035.107. As long as the revenue generated by the contract exceeds its attributable costs, the contract is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if the contract covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

Based on a review of the record, the Commission finds that the rates during the term of the contract should cover the contract's attributable costs. 39 U.S.C. § 3633(a)(2). Thus, the Commission also finds that the contract should not result in competitive products as a whole being subsidized by market dominant products, in

accordance with 39 U.S.C. § 3633(a)(1). Similarly, the Commission finds the contract is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). *See also* 39 C.F.R. § 3035.107(c). Accordingly, a preliminary review of the contract indicates it is consistent with section 3633(a).

The Commission will review the contract's cost coverage and the contribution of competitive products as a whole to the Postal Service's institutional costs in the Commission's Annual Compliance Determination to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Other considerations. The Agreement is intended to take effect July 1, 2020. Request at 2. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement. It is set to expire June 30, 2021. *See* Request, Attachment B at 6-7. If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in these dockets.

The contract also contains a provision whereby the Postal Service can extend the contract for two 3-month periods provided the Commission is notified at least 7 days prior to the contract's expiration date. *Id.* at 7. The Commission finds the two potential 3-month extension periods are reasonable because the extension(s) should assist the Postal Service's contract negotiations by providing additional flexibility.

In conclusion, the Commission approves International Priority Airmail Contract 1 as a new product. Revisions to the competitive product list and the MCS appear below the signature of this Order and are effective immediately.

V. ORDERING PARAGRAPHS

It is ordered:

1. International Priority Airmail Contract 1 (MC2020-164 and CP2020-187) is added to the competitive product list as a new product under Negotiated Service Agreements, International. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.
2. The Postal Service shall promptly notify the Commission should there be a change in the effective date of the Agreement.
3. The Postal Service shall promptly file notice of the instant contract's termination with the Commission in these dockets if the instant contract terminates prior to the scheduled expiration date.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Erica A. Barker
Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix B to 39 C.F.R. part 3040, subpart A—Competitive Product List. These changes reflect the Commission's order in Docket Nos. MC2020-164 and CP2020-187. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Appendix B to Subpart A of Part 3040—Competitive Product List

Negotiated Service Agreements*

International*

International Priority Airmail Contract 1

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

International*

International Priority Airmail Contract 1

2500 Negotiated Service Agreements

2510 Outbound International

2510.2 Negotiated Service Agreement Groups

- International Priority Airmail (2510.20)

2510.20 International Priority Airmail Contracts

These contracts provide incentives for International Priority Airmail (IPA) (2320).

Each product is followed by a list of agreements included within that product.

- International Priority Airmail Contract 1

Baseline Reference

Docket Nos. MC2020-164 and CP2020-187

PRC Order No. 5567, June 26, 2020

Included Agreements

CP2020-187, expires June 30, 2021
